

Devinuwara Pradeshiya Sabha - 2020

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Devinuwara Pradeshiya Sabha including the financial statements for the year ended 31 December 2020 comprising the Statement of financial position as at 31 December 2020, Statement of Financial Operations, Statement of Changing Equity, Cash Flow Statement for the year and significant accounting policies and other explanatory information was carried out, for the year then ended, under my direction in pursuance of provisions in Article 154 (1) of the constitution of the Democratic Socialist Republic of Sri Lanka read in conjunction with Sub-Section 172 (1) of the Pradeshiya Sabha Act No. 15 of 1987 and the provisions of the National Audit Act No 19 Of 2018. My comments and observations which I consider should be report to parliament appear in this report.

In my opinion, except for the effects of the matters described in paragraph 1.6 of this report, the accompanying financial statements give a true and fair view of the financial position of the Devinuwara Pradeshiya Sabha as at 31 December 2020, and of its financial performance and its cash flows for the year then ended in accordance with Generally accepted Accounting Principles.

1.2 Basis for Qualified Opinion

My opinion is qualified on the matters described in paragraph 1.6 of this report.

I conducted my audit in accordance with Sri Lanka Auditing Standards (SLAuSs). My responsibilities, under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of my report. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified opinion.

1.3 Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with Generally Accepted Accounting Principles, and for such internal control as management determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Those charged with governance are responsible for overseeing the Pradeshiya Sabha's financial reporting process.

As per Section 16(1) of the National Audit Act No. 19 of 2018, the Pradeshiya Sabha is required to maintain proper books and records of all its income, expenditure, assets and liabilities, to enable annual and periodic financial statements.

1.4 Audit Scope (Responsibility of the Auditor for the audit of Financial Statements)

My objective is to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Sri Lanka Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Sri Lanka Auditing Standards, I exercised professional judgment and maintain professional skepticism throughout the audit. I also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of its internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

The scope of the audit also extended to examine as far as possible and as far as necessary the following;

- Whether the organization, systems, procedures, books, records and other documents have been properly and adequately designed from the point of view of the presentation of information to enable a continuous evaluation of the activities of the Pradeshiya Sabha, and whether such systems, procedures, books, records and other documents are in effective operation;
- Whether the Pradeshiya Sabha has complied with applicable written law, or other general or special directions issued by the governing body of the Pradeshiya Sabha
- Whether it has performed according to its powers, functions and duties; and
- Whether the resources of the Pradeshiya Sabha had been procured and utilized economically, efficiently and effectively within the time frames and in compliance with the applicable laws.

1.5 Report on Other Legal Requirements

The National Audit Act No. 19 of 2018 contains special provisions regarding the following requirements.

- (a) Financial Statements of the Pradeshiya Sabha as per the requirement mentioned in Section 6 (1) (d) (iii) of the National audit Act No. 19 of 2018 corresponded with the Financial Statements of the previous year.
- (b) In accordance with the requirement referred to in Section 6 (1) (d) (iv) of the National Audit Act No. 19 of 2018, recommendations made by me during the previous year are included in the submitted financial statements

1.6 Audit observations regarding the preparation of financial statements

1.6.1. Accounting Deficiencies

Audit Observation	Comment of the Sabha	Recommendation
(a) Rs.1,932,778 had been spent for the construction of the Kapugama West Wehella main car park belonging to the Sabha during the year under review and this amount had not been capitalized under Land and Building.	Actions will be taken to correct in the preparation of the final account for the year 2021.	Should be properly accounted.
(b) The amount of Rs. 311,315 spent for the development of Kapugama Library in the year 2019 had not been capitalized even in the year under review.	Actions will be taken to correct in the preparation of the final account for the year 2021.	
(c) The stock of general storage had increased by Rs. 1,106,449 due to mistakes in the calculation of the stock as at the end of the year under review.	The mistake had been occur in the collecting of information by the subject of the store and will be corrected in the future.	

1.6.2. Lack of Documentary evidence for audit

Audit Observation	Comment of the Sabha	Recommendation
The information required for the audit had not been submitted in respect of	By a committee would assess the new costs associated with land and	Evidence confirming the account balance

three accounting items amounting to Rs. 18,925,338.	buildings, identify all physical assets, and update the fixed asset register.	shown in the financial statements should be submitted.
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2. Financial Review

2.1 Financial Result

According to the Financial Statements presented, revenue over recurrent expenditure of the Sabha for the year ended 31 December 2020 amounted to Rs. 25,266,485 as compared with against the revenue over recurrent expenditure amounted to Rs. 31,245,653 in the preceding year.

2.2 Revenue Administration

Performance of Revenue Collection

(a) Assessment

Audit Observation

The actions had not been taken to recover the arrears of assessment tax amounting to Rs. 4,994,262 by the Sabha at the end of the year under review.

Comment of the Sabha

The action will be taken to recover the arrears once the epidemic is over.

Recommendation

Arrears of income should be recovered promptly.

(b) Acreage Tax

Audit Observation

The action had not taken to recover the arrears acreage tax of Rs. 69,093 as at the end of the year under review,

Comment of the Sabha

The acreage tax register could not be maintained due to lack of clear information about the owners and lands.

Recommendation

Arrears of income should be recovered promptly.

(c) Rent

Audit Observation

(i) The Sabha had not taken action to recover the arrears of income Rs. 11,786,219 as at the end of the year under review, accordingly the balance shown in the relevant schedule was Rs.10,891,560.

Comment of the Sabha

Action will be taken to recover the arrears once the corona epidemic has settled.

Recommendation

Arrears of income should be recovered promptly.

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| (ii) | Although the shops owned by the Sabha should not be sub-leased in terms of Article 23 of the agreement, 07 shops and plots of land belonging to 3 shopping complex were leased by 06 of their owners at a rent higher than the monthly rent charged by the Sabha without the approval of the Council. | Actions will be taken into consideration in the future. | Actions should be taken in accordance with the Article 23 of the Agreement. |
| (iii) | Including 06 stalls belonging to the old complex, 15 stalls belonging to the new complex, 08 plot of land behind the new complex and one plot of land behind the old complex, 30 shop rooms were closed without doing business for a long time. | Actions will be taken into consideration in the future. | Leasing and maintenance of Shops should be done properly. |

3. Operating Review

Matters revealed with regard to fulfilling regulation and control and administration of public health, public utility services and public roads, generally with the protection and promotion of the comfort, convenience and welfare of the people and amenities by the Council under Section 3 of the Pradeshiya Sabha Act are shown below.

3.1 Operating Inefficiencies

Audit Observation

Dambulla and Nuwara Eliya Divisional Secretaries had purchased Rs. 1,586,348 stocks of vegetables for distribution and this stocks had been distributed free of charge without the recommendations of the Grama Niladhari, Economic Development Officer and Samurdhi Development Officer and 728,100 kg of vegetables had been sold and as at 1 July 2020, Rs. 567,100 had been transferred to two divisional Secretarial office.

Comment of the Sabha

The distribution of vegetables was done with the assistance of the members of the Sabha and there was no opportunity for a board of inquiry to inquire into the quantity of vegetables damaged.

Recommendation

Proper mechanism should be adopted.

3.2 Deficiencies of Contract Administration

Audit Observation

During the year under review, 07 roads under the Sapiri Gamak Community Based Rural Development Program with an estimated value of Rs.3,387,627 had been developed and according to the concrete test of those 07 roads, 05 roads did not have the specified thickness and strength.

Comment of the Sabha

No payment was made for bills on 05 roads which did not have the specified thickness and 2 other roads.

Recommendation

Construction should be done to the required standard as per the estimates.

4. Accountability and Good Governors

4.1 Environmental Issues

Audit Observation

The Sabha had not implemented a permanent and formal Waste Management Project to produce compost using the decomposing garbage collected daily in the Council area and direct it to recycling non-degradable waste. Instead about 3 ½ tons of garbage collected daily was being dumped in a swamp belonging to the Matara Pradeshiya Sabha without being classified as composing and decomposing waste.

Comment of the Sabha

Only decomposing waste will be disposed of at the site and the non-decomposing waste will be collected monthly and handed over to the Kotawila Garbage Recycling Center.

Recommendation

Garbage disposal should be done properly.